

CITY OF HAYWARD

AGENDA REPORT

AGENDA DATE 02/15/00

AGENDA ITEM 5

WORK SESSION ITEM _____

TO: Mayor and City Council

FROM: Director of Community and Economic Development

SUBJECT: Homeownership Programs

RECOMMENDATION:

It is recommended that the City Council review and comment on the City's homeownership programs.

DISCUSSION:

70% Homeownership Goal

In 1994 Council directed staff to prepare an amendment to the General Plan Housing Element to increase the percentage of Hayward households who become homeowners from 51% to 70%. In October 1995, the City Council adopted an amended Housing Element that included new policies and programs to help increase the City's homeownership rate.

The main purpose of the programs was to assist median income households become homebuyers since, without such assistance, these families would be excluded from ownership. Creating a larger pool of potential homebuyers to purchase moderately priced Hayward homes also helps to preserve Hayward's ownership-type housing stock from becoming rental stock.

First Time Homebuyer Loans

Downpayment and Closing Costs Assistance

There are two city programs designed to help first time homebuyers. The first provides downpayment and closing costs assistance to borrowers whose income is no greater than 120% of median income, adjusted for household size; \$63,100 for a household of two and \$71,000 for a household of three. This program is funded through the Redevelopment Agency's Low and Moderate Income Housing Fund.

The program provides low interest loans for downpayment and closing costs which can be used to purchase homes throughout Hayward. Loans provide downpayment assistance up to 2% of the purchase price and funds for non-recurring closing costs. Eligible properties are those with sales prices which are at or below the median home price for Hayward. When the program began, the maximum loan amount was \$6,300 and the maximum sales price for eligible properties was \$180,000. Due to increases in home prices and closing costs, today, the maximum loan amount is \$9,300 and the maximum sales price is \$240,000.

Deferred Second Mortgage Program

The City operates a special program for lower income families (household income not exceeding HUD Low Income limits -- \$43,000 annually for a family of three) which provides a fully deferred second mortgage of up to \$30,000 in addition to downpayment and closing costs. This program is funded with Community Development Block Grant funds.

Both of the City's First-Time Homebuyer Programs have been approved by HUD's Federal Housing Administration (FHA), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the California Housing Finance Agency (CHFA).

Over 147 households have used Hayward's program to become homeowners. In FY 1998-99, the Homeownership Coordinator made 44 loans; thirty-six to moderate income buyers and eight to low income buyers. The average loan was approximately \$8,000 for moderate income buyers and the average loan to assist lower income households become homeowners was \$31,000 (which included both CDBG second mortgage and Low/Mod Fund downpayment and closing costs monies).

Approximately 60% of Hayward's first time homebuyers lived or worked in Hayward prior to purchasing a home here. The vast majority lived in Hayward; about fifteen percent worked in Hayward. Of the first time homebuyers who neither worked nor lived in Hayward, 14 were from Fremont; five each were from Union City and Oakland; four from San Francisco; three each were from San Leandro, Redwood City, San Leandro and San Mateo; and the remainder one to two each were from Emeryville, Newark, San Carlos, San Ramon, South San Francisco, Walnut Creek and San Lorenzo.

Homes purchased were located throughout Hayward (with the exception of the Hayward Hills since home prices there are generally above the median sales price). The only significant cluster of first time buyers is located in the Atherton Townhomes. Attachment B is a map showing the location of homes purchased through the program.

Mortgage Credit Certificates

Authorized in the Tax Reform Act of 1984, the federal Mortgage Credit Certificate program was designed to assist first time homebuyers afford to purchase a house by providing a tax credit against income taxes up to 20% of the mortgage for a total of five years. By reducing the amount of income taxes paid by the borrower, more income is generated to support a first mortgage. Households are eligible whose incomes are no greater than \$48,500 for a household of one or two person and \$55,700 for three or more person households. (This is approximately 95% of median income.) MCCs, therefore, help households on the lower end of moderate income finance a large enough mortgage to purchase a home.

All of the cities in Alameda County joined with County to participate in the MCC program. Since 1992, the County has received an allotment of MCCs. The MCC program used to be a substantial source of financing for first time buyers in Hayward. In 1992, 110 MCCs were issued to households in Hayward, totaling \$14,515,388 in mortgage financing. In 1996, after the California Debt Limit Allocation Committee decided to give the California Housing Finance

Agency almost all the bond/MCC allotment instead of the cities and counties, Hayward received \$1,851,775 in mortgage financing which provided MCCs for 15 households. Thereafter, Hayward has received enough MCCs to assist approximately 15 households each year. In FY1999-2000, five additional MCCs will be available to Hayward because the program's sales price limits (e.g. \$205,400 for resale homes) are so low for the Bay Area that few cities in the County have housing stock which qualifies.

Marketing and Homeownership Classes

A Homeownership Coordinator was hired to promote Hayward's programs, teach homeownership classes, underwrite loans and coordinate a partnership with lenders and realtors to market Hayward and offer as many different first mortgage programs as possible. Information on the City's First Time Homebuyer Program is mailed to tenants in all of Hayward's apartment complexes. Three to five presentations per month, promoting the program, are made to community groups. Classes for potential first time homebuyers are conducted on a bi-weekly basis. Classes conducted in Spanish are on a monthly basis. When there is enough demand, classes are also conducted in Cantonese. The class helps potential homebuyers understand the realities of home ownership, credit, managing debt and budgeting. Staff also conducts post-purchase follow-up workshops to help homebuyers with credit, budgeting, and savings issues. More than two thousand potential homebuyers have attended these classes. Classes are mandatory for all who wish to participate in the City program. Attachment B contains a detailed description of the marketing and homebuyer education activities provided by the Homeownership Coordinator.

Lessons Learned

Homeownership classes prior to purchasing a home and follow-up afterwards are critical in preparing households of all income levels for homeownership. Budgeting, credit and home maintenance are key issues. Often new homeowners are showered with credit card offers and offers from mortgage companies encouraging owners to use their equity as a credit line. The follow-up workshop has been very helpful in helping households stay out of trouble after becoming homeowners.

A focused program can increase homeownership in an area and decrease inventory; "jump starting" sales. When the program started in FY96, staff focused on the Jackson Triangle area because it had a number of ownership-type units and relatively low owner-occupancy. At that time, the area had a relatively large inventory of homes for sale which had been advertised for many months. Because the homes were relatively inexpensive and were on the market for a long time, some were purchased by investors for rental properties; others were converted to rentals by owners who were unable to sell their homes within their desired timeframe.

The downpayment and closing costs assistance provided by the City program allowed median income households who could afford the mortgage payment for homes in the Jackson Triangle, but didn't have enough money for the downpayment, to become first time homebuyers. By increasing the number of homebuyers in this area, the inventory and turnover time decreased. It is possible that fewer homes were sold to investors or rented by owners because of increased demand. Sales prices began to increase; after two years, most home prices exceeded the maximum sales price allowed for the City's program. Although prices for homes for sale in all

neighborhoods in Hayward have been steadily increasing, it could be fairly said that the City's efforts "jump started" home sales here.

There is no substitute for the personal touch. The City's Homeownership Coordinator attended as many open houses and realtors' meetings as possible to market Hayward, she let realtors know that there were homebuyer programs that might be of assistance to their clients and put together a partnership of lenders and realtors to focus on making home loans in Hayward. She also made numerous presentations to community groups. This consistent effort generated potential home buyers and a more positive attitude within the realtor and lender communities towards Hayward.

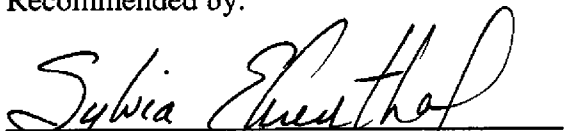
One hundred and forty-seven first-time buyers, who probably would not have been able to purchase a home without the City's programs, is a substantial accomplishment within a four year period. For comparison, the thirty-six first time homebuyer loans made during FY98-99 through the City's programs exceeded the number of homebuyer loans made by the city of Oakland during the same period. However, in terms of the City's homeownership goal, the rate of homeownership due to these programs has probably increased only a fraction of one percent. Over all, approximately 1700 owner-occupied units were added between 1990 and 1998, raising the City's owner-occupancy from 51.1% to 52.4%.

Prepared by:



Ann R Bauman, Neighborhood and
Economic Development Manager

Recommended by:



Sylvia Ehrenthal, Director of Community
and Economic Development

Approved by:



Jesús Armas, City Manager

Attachment A: Program Marketing and Homebuyer Education Activities

Attachment B: Map Showing Location of Homes Purchased

Attachment A

PROGRAM MARKETING AND HOMEBUYER EDUCATION ACTIVITIES

Information regarding the City of Hayward's home ownership assistance programs is provided to the public through a variety of channels. The following is a brief summary of these program marketing efforts:

- **Direct mailing to Hayward Renters:** City staff work with First American Title and Financial Title Company to obtain the latest list information on apartment complexes in Hayward. Information about the City's home ownership programs is mailed to each Hayward apartment tenant.
- **Community Presentations:** Program staff conduct three to five presentations per month about the City's home ownership programs to community groups throughout the year. These presentations have been made to Glad Tidings Church, Building Opportunities for Self-Sufficiency, Alameda County Social Services Program, the Women's Board of Realtors, the Hispanic Board of Realtors, the African-American Board of Realtors (Realtists), Southern Alameda County Association of Realtors (SACAR), and other real estate industry and community groups. At these presentations, program staff explain how each of the programs work and, when appropriate, urge the various real estate professionals in attendance to market the program to their clients.
- **Industry Referrals:** The success of the City of Hayward's homeownership assistance programs is directly related to the partnerships forged by program staff with real estate agents, brokers, and mortgage lenders. The City's own program marketing efforts are augmented by the work of these private sector partners. The City programs provide a unique tool to allow more families to take advantage of special mortgages for first-time and lower-income homebuyers. Knowledge of these programs and their support by local real estate professionals helps their own performance and increases the visibility and effectiveness of the City's programs. Of the 11 active lenders authorized by the City to make loans to program participants, at least half have offices in Hayward. One of the most active lenders is currently searching for a suitable location in Hayward to open a new branch.
- **Telephone Referrals:** Many of the inquiries about the City's programs are via telephone calls from potential home buyers. Program staff is trained to respond quickly and effectively to these calls by either sending program materials and/or enrolling the caller in a City-sponsored homebuyer education class.
- **Multilingual Materials:** Program staff have prepared flyers that present basic program information in Spanish to reach this critical segment of the home buying market.

Homebuyer Education

Program staff conduct classes for potential first-time home buyers on a bi-weekly basis. The curriculum for these classes is based on guidelines prepared by Fannie Mae and is similar to those used by GE Capital. Classes conducted in Spanish are held on a monthly basis. When there is enough demand, classes are also conducted in Cantonese.

The information provided in these classes helps potential homebuyers understand the realities of home ownership and prepare them for selecting a home, qualifying for a mortgage and how to maintain their new purchase. The classes also discuss managing debt and establishing and following a budget. Staff also conduct post-purchase follow-up workshops for new homeowners who participated in the City's programs, quarterly savings and budgeting workshops, and workshops that address credit issues.

